

## **Institutional Analysis of Transformations in Ukrainian Agriculture**

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**Abstract:** Institutional character of systematic problems, directions and ways for realization of agrarian reforms in Ukraine were determined as a social process of institutional development based on the ideology of forming and deepening of market relations. The necessity of institutional investigations of transformations in the agrarian sector of Ukrainian economy was substantiated. The environment of the institutes forming the institutional map in the whole was identified. The institutional essence of the crisis in the agrarian sector of economy was analyzed. Various factors that may potentially lead to the changes in the institutional structure were generalized. Main problems for applied institutional analysis were identified. The aggregate of features characterizing the institutes of the agrarian sector was formulated. For agricultural enterprises the authors have identified an approach implying that the institutional analysis should be performed in relation to the enterprise subsystems on the process characteristic. The methodological and methodical bases of institutional analysis for efficiency evaluation and modeling of socio-economic process in agriculture are presented.

**Key words:** Agrarian sector • Socio-economic process • Ukrainian economy

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### **INTRODUCTION**

Problems of market reforms in Ukraine, especially in agrarian sector, which due to a number of objective and subjective reasons underwent serious negative disproportions in its development, remain rather acute. The development of national agrarian economy is specific and, therefore, requires a cardinal new institutional carcass of social relations. In this respect a number of economic and organizational problems related to the increase of economic efficiency and creation of socio-cultural environment oriented to the priorities and potential of post-industrial society are topical as well.

Fundamental character and institutional nature of such socio-economic transformations dictates the necessity to form a cardinal new view on the role and effect of the reforms at the transitional stage of the country market economy. Analysis of these reforms provides an opportunity to determine general features and regularities of their implementation. The inertia always tends to keep the overwhelming majority of social structure elements permanent, despite that they appear to be contradictory and inconsistent with new social changes at all times taking place during vital activities of socium. This problem is not only relevant to Ukrainian

agriculture; it conditions the entire complex of crisis phenomena occurring for the whole period of reforms.

The reasons of insufficient efficiency of agrarian reforms and opportunities for agrarian policy improvement in Ukraine are actively studied by foreign and local researchers. From the published results of investigations of Ukrainian economists related to this topic, first of all, it is worth noting the works of Yu. Lopatinskiy [1], Yu. Lupenko [2], P. Sabluka [3] and many others. The institutional bases of socio-economic development of society were actively studied by such foreign researchers as A. Alchian [4], D. North [5], D. Hodgson [6], Among the Russian scientists who use the institutional theory during economic analysis the following names should be mentioned: G. Kleiner [7], V. Tambovtsev [8], O. Shastitko [9].

However, it should be noted that the published works cover only a limited number of problems of institutional development. At present, there is a lack of systemic application of the institutional theory in different industries, including agriculture. The institutional changes during evolution of domestic agrarian sphere remain little investigated; and the institutional aspects of the industry development and perspectives have not been studied in practice. All these problems require additional systemic research and generalization.

## **MATERIALS AND METHODS**

The methodological and theoretical bases of the research are the fundamental ideas of classical scholars and modern domestic and foreign economists related to the problems of institutional development. During the research we used the methods of generalization, comparative economic analysis and expert evaluation.

**The Main Part:** Changes in domestic agriculture for the 90-ies and up to present have an institutional basis. Socio-economic dysfunctions are only the derivatives of the fundamental changes in the institutional system of agrarian socium. Such change causes changes in the correlation of different institutes' influence and the resulting relations.

All this takes place against the background of stable institutional environment that remains and will continue during the existence of civilization as a whole. Against this background there is both simple decrease / increase of influence of individual institutes (positive and negative one) and development of new institutes, or in fact their revival in the modified forms [10]. At that, it is right to speak about the positive and negative institutes and their positive and negative influence manifested in one or another aspect in a specific situation. The normative methodology of possible modernization of the institutional system of agrarian socium, in accordance to which the real situation is exogenously transformed to the ideal one, implies the search and achievement of such state of the institutional environment, where the content of the institutional system is mainly based on maximal positive influence of different institutes. The development of the analytical model of such institutional environment, complying with certain preset parameters, appears to be the main scientific issue.

One of the cardinal features of the institutional theory of any economic system evolution is absence of focus on different levels of the proper economic system. Both at macroeconomic, regional and industrial levels and at microeconomic level (enterprises and households), the basis of institutional system is the same institutes, generally characterized by the analogous regularities and dependences of functioning and covering all economic spheres. Of course, some peculiar projections of such institutes take place depending on different objects of analysis; however, this aspect may be ignored. Hence, the key statement is that both destruction and creation of the institutes occur at all levels of economy practically simultaneously [11]. At that, at every specific moment of forming of new / improvement (transformation) of the

existing institutes, the key role among the factors of institutional dynamics may be identified only at one level of economics. The cardinal moment is projection of this situation under the conditions of period and transformation of society and economy, when the latter ones transfer from stable to impulse mode of permanent or systemic changes. We substantiate the thesis that such economic level for domestic agrarian economy is the spatial field of agricultural enterprises at the same time covering the subject field of socio-agents (farmers).

The institutional essence of agricultural crisis of the 90-ies is, first of all, de-institutionalization (or destruction of the existing institutes or drastic decrease of their influence) of agrarian economy at macroeconomic level, the level of individual industries and regions. At the same time, it may be said that at the level of agricultural enterprises and personal subsidiary plots, both the traditional structure of the institutional system (considering certain changes in the influence of some institutes within such system) and formation of new institutes, isolation of their influence and value, remained. At that, the criteria of production dynamics (production functions) are considered. It is a question of the fundamental structure of the institutional space for functioning of these levels of agrarian economy. Perspectives of agrarian reforms in Ukraine are to create the efficient economy by influencing the particular level of economy. This is the cardinal correction of the reforms course: in this case, the agricultural enterprises should become the key elements of institutional modernization. The latter is understood as a purposeful process of rising, supporting and distributing the positive economic institutes that, as it has been already mentioned, is synonymic with formation of positive influence of different institutes. This is the basis for production growth at any economic level and simultaneously the conceptual scheme of institutional transformation on the whole.

In scientific literature related to the institutional changes there is quite a substantial list of various factors that may potentially result in the changes in the institutional structure [7]. These factors differentiated and appropriately grouped cover various aspects: from catastrophic and macroeconomic to psychological and technological (Table 1).

Their importance is in the possibility of such changes, although the issue of specific manifestation, obviously, remains open. It is the question of identification of the proper mechanism of institutionalization (enrooting of certain norms meaning identification of the influence of a concrete institute where

Table 1: Main factors of genesis of socio-economic institutes

Factors	Authors
Macroeconomic changes related to macroeconomic management in the country	D. North [5]
Macroeconomic changes related to international situation	G.B. Kleiner [7]
Agents demand for new institutes	V.L. Tambovtsev [8]
Random rise of institutes and natural selection on efficiency criterion	A. Alchian [4]
Historical events - recessions, wars, revolutions, class conflicts	R. Buaje [12]
Technological progress, innovation activities	J. Schumpeter [13]
Targeted institutional projection and organization of institutes	V.L. Tambovtsev [8], A.E. Shastitko [9]
"Transplantation" of institutes	Полтерович В.М. [14]
Institutional historical inertia	D. North [5]
"Friction", interaction between institutes	J. Hodgson [6]
General recurrence of development	V.S. Ordinyan [15]

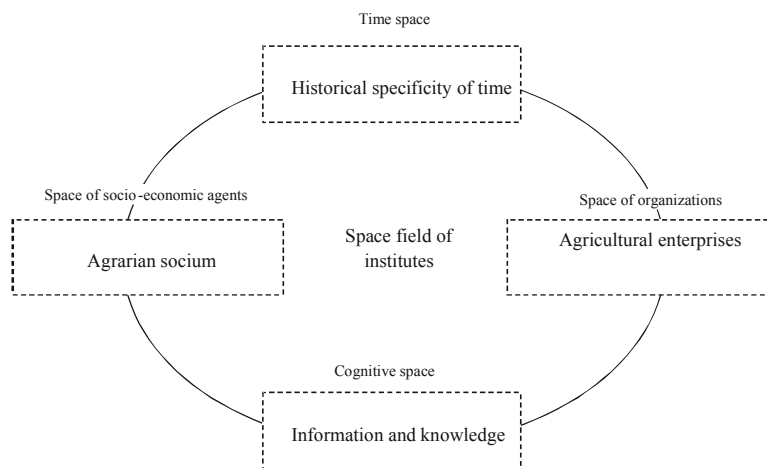


Fig. 1: Space field of existence and realization of institutions

these norms are fixed). On our opinion, the ideas [7] related to the general character of innovation diffusion may be accepted as a basis for explaining the mechanism of process distribution and institution strengthening; however, they also require clarification, considering the general character of the aforesaid.

Therefore, the mechanism of institutionalization may be explained from the point of view of the distinguished cardinal types of space where this process takes place (Fig. 1).

Such spaces are: space of time (where the emphasis shall be made on historical specificity of the process), space of socio-agents (in our case, of domestic agrarian socium) and organizations (farmers) as objects of social and economic identification of agents in space and time, space of institutions / norms, cognitive space (or space of information and knowledge). In terms of all spaces functioning there is a necessity to reach and provide the efficiency of this norm in relation to a certain group of social agents who have a certain power and possibilities to distribute this power.

The main problem of applied institutional analysis is complexity and ambiguity of establishing the cause and effect dependences being the exceptionally multi-aspect phenomena consisting of the wide spectrum of possible variations and their explanations. It should be noted that use of this method as well as performance of applied institutional analysis at macro, mezzo- and micro-levels is cardinally different from the traditional economic analysis. The problem is multifold and here we pay attention only to the most specific aspects.

First of all, the problem is complex quantitative evaluation of specific weight of the institutional factors of influence. These factors may be assessed only indirectly, namely: based on subjective evaluations interpreted at one or another level of accuracy and possible involvement of mathematical tools, or based on the quantitative criteria that prove the role of institution only indirectly. So, for instance, the economic efficiency of the innovations institute at a specific agricultural enterprise that is traditionally evaluated from the correlation of costs and their payback, in this case, rather covers social

problems, namely: what norms, traditions and habits are stimulating or limiting in terms of realization of the innovative potential.

Another aspect of the problem is that most often identification of institutions and their essence requires subjective surveys among people subjected to their influence or spatially or timely related to the studied phenomena or have professional capacity for evaluation of this situation [16]. Investigation of a specific institutional environment requires the detailed and deep explanation of the matter of the problem for respondents that, according to the experience, is rather complicated and necessarily needs certain intellectual base. In addition, there are technical problems arising during organization of deep sociological surveys and interviews with numerous people of different social status, which require a certain critical level of professionalism from the initiators of such investigation. Besides, it is important that analytical evaluations of the results of such investigations should be interpreted with maximal correctness, not taking into account emotions, political views or preferences of the analyst, but considering topicality of the problems in agriculture that, in turn, is also problematic.

Identification of the presence, role and nature of one or another institute shall cover the subject and object descriptions of the studied phenomena. It is worth emphasizing the necessity in a systemic description of the institute and an analytical description of the institute model [17]. Hence, every institute may be characterized on the spectrum of the following features combined as original principles accepted at consideration of this institute:

- Name of the institute, sphere of activities of the object. General description of the institute's essence.
- The matter of the basic norms of the institute.
- Real subjects covered by the institutional norm.
- Potential subjects for coverage by the institutional norm.
- Time identification of the institute – time and conditions of appearance and period of activities.
- Degree of the institute formalization (formal or informal), registration and compliance with normative and legal base.
- Mechanism to control the observance of a particular institutional norm.
- The level of activities of the institute (macro-, mezo-, micro-level).

- The regulatory level, i.e. to what extent the institutional norms are based on the mechanisms of such activities regulation.
- The level of constructiveness, i.e. to what extent these institutional norms further development, improvement and modernization.
- System of interaction with other institutes.
- The institutional capacity, mechanisms of institutional support (level of public opinion and support).
- List (modeling) of possible situations and phenomena that may be explained by this institute.
- Mathematical and other tools that may be used for analysis of the institute.
- Evaluation of expediency / efficiency of the institute.

The abovementioned stages of institutional analysis may be applied both during internal investigation for a specific enterprise within the institutional system and for the object of analysis of a higher level. Ultimately, the problem in question is description of the functioning institutes and their interaction with each other. The obtained data serve a basis for a strategic institutional analysis aimed at the developing the conditions for forming the optimal system for this object [18]. To carry out analytical research it is expedient to compile the institutional map reflecting the respective components. At that, evaluation of expediency / efficiency of the institute is, obviously, the logical and integral stage of any research. To reach the fair objectiveness it should be performed by different groups of experts: internal (including specialists of this object), external (including specialists not working directly for this object but having relations during their assignments) and independent ones (specialists in the field without previous experience in the object).

While drawing up an institutional map we may receive answers to the following questions. What is the structure of the institutional system of this object; what are the peculiarities of hierarchy of its institutes; to what extent are the found institutional structures different for different objects, for instance, different enterprises; what are the manifestations of such differences, of a collective estimate of expedience and efficiency of the entire institutional structure of the object; what is the density and saturation of the internal institutional environment; what characteristics of the institutional environment may be described according to the criterion of fundamental nature for this object; whether there is and how the

infrastructure of various mechanisms and support groups of the studied institute functions [19]. There is one more topical question namely, whether it is real to purposefully establish or transplant the institutes from one enterprise to another and build up a model of the dependence of financial and economic state of the enterprise as a derivative of its institutional structure characteristics [20].

At the level of agricultural enterprises, the justifiable for the institute identification is the approach, according to which the analysis is performed in relation of the enterprise subsystems on the process characteristic. It is clear that relatively independent and really substantial are the following processes.

- Organization of production;
- Planning and control, including strategic planning;
- Relations with external partners;
- Investment, financial and innovation activities;
- Provision of resources – search and selection of supplier, specific features of interaction with this supplier, peculiarities of agreements and contracts;
- Storage, delivery and distribution of material and technical resources;
- Marketing (search of clients, specific features of contracts and their monitoring, pricing rules, peculiarities of contracts with consumers and intermediaries);
- Specificity of decision-making at different levels;
- Employment and dismissal, salaries and functions of personnel, types of contracts at the enterprise;
- Interrelations in the system “management-team”.

The institutional analysis of socio-economic processes in agrarian socium includes description of the functioning institutes and their relations as a system of intangible assets and evaluation of this system as a resource considering its useful potential and immanent dysfunctions. The results of institutional analysis may have a clear hierarchy of interpretation on the level of the investigation subject: macro-, mezzo- and micro-level. We believe that if compared with the results of analysis, at different levels there may be significant differences in final evaluations of the phenomena and processes.

### CONCLUSION

It should be also noted that the results of institutional analysis are, in our opinion, the independent informational block of respectively structured and

interpreted knowledge, since they provide answers to the questions that can not be generalized based on the results of traditional economic, sociological, political, cultural and other types of analysis. At the same time the results on institutional studies will have high level of adequacy and perspectives for further use in modeling and prediction in case of their complex application with the results of other analysis.

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